

Statement of the Honorable Bob Clement
in Support of the Tax Deduction Fairness Act of 2001
Before the House Budget Committee

March 8, 2001

Thank you, Mr. Chairman. It is a privilege for me to testify before this Committee today with my colleague, Congressman Brian Baird from the state of Washington.

I am here today to urge you to include in this year's budget resolution an issue of tax fairness and tax equity. Congressman Baird and I have introduced H.R. 322 which would restore the sales tax deduction to the federal income tax code. This is an issue of tax fairness that has been wrongly denied to the citizens of Tennessee and six other states for 15 years. I am pleased that about 50 of my colleagues – including several members of this Committee and the entire Tennessee delegation – have joined us in cosponsoring this bill.

In 1986, the state sales tax deduction was eliminated from the federal tax code in an effort to expand the tax base. While probably well-intentioned, the elimination of the sales tax deduction is not well-received by my fellow Tennesseans who continue to be unfairly taxed. This poorly evaluated change in the tax code created a fundamental inequity between those states that have instituted a state income tax and those that have not. This is because, under the current tax code, taxpayers living in states that have an income tax can deduct their state taxes from their federal tax bill. However, the 50 million Americans living in states without an income tax, such as Texas, Florida, Wyoming, Washington, South Dakota, Nevada and Tennessee, do not have an equivalent tax deduction. As a result, they end up paying significantly more in taxes to the federal government than a taxpayer with an identical profile in a different state.

Mr. Chairman, like many of my colleagues on this panel, in this era of unprecedented budget surpluses, I support tax cuts. I think it is only fair that we return some hard-earned money to our hard working Americans. However, I think we must prioritize tax fairness. Sales tax deduction is an issue of tax fairness.

In 2000, the citizens of Tennessee paid an average of \$730 in state sales taxes, but could not deduct one dollar of it from their federal income tax returns. So, basically, Tennesseans are being forced to pay taxes on their taxes. This is not right! It is unfair, it is unjust and it must be corrected here in the 107th Congress! The citizens of Tennessee and Washington and the other states are being discriminated against simply because they live in a state that has chosen not to enact a state income tax.

Mr. Chairman, I think we all agree here, that the federal government should treat all taxpayers equally, regardless of the system of taxation that their state employs. I have some friends back home in Nashville who just had two beautiful twin daughters who I know would

agree. With a combined income right around fifty thousand dollars, they would save \$358 with the passage of this tax equality bill. That, Mr. Chairman, is a lot of diapers.

This bill is very simple. It would allow taxpayers to deduct their state income tax returns from their federal income tax returns. Those living in a state that has an income tax would still be able to take an income deduction as they do today. However, residents of states that do not have an income tax would be provided with the opportunity to take a similar deduction.

We, as federal officials, have no right to suggest to a state how best to tax its citizens. H.R. 322 is an opportunity to limit the federal government's influence on the methods of taxation across this country. It does so by taking away the incentive for a state to impose a state income tax on its citizens. Regardless of your views on income taxes, sales taxes or some alternate tax structures, I'm sure my colleagues on both sides of the aisle would agree that states should have the right to decide for themselves how they want to collect their revenues without interference from the federal government.

In closing, I would like to thank my friend, Congressman Brian Baird, for his hard work on this issue that we have been working years to enact. We have an opportunity to restore fairness and equity to the tax code in this Congress without making the tax code more complex and without abandoning our fiscal discipline.

I urge my colleagues to support the inclusion of this provision in the budget resolution and reinstate the sales tax deduction.